




ASPEN NETWORK
OF DEVELOPMENT
ENTREPRENEURS

 aspen institute

Impact Investments in Brazil 2021

May 2023

PREPARED BY

Aspen Network of Development Entrepreneurs



The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in developing economies. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs create jobs, stimulate long-term economic growth, and produce environmental and social benefits.

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DATA ANALYSIS

Pipe.Labo



Pipe.Social's works to develop research and intelligence data on socio-environmental impact. The organization was born from research on impact businesses in education and launched itself to the market with the first Social+Environmental Impact Business Map and the Pipe.Social Business Window. Since 2016, it has developed several studies on the socio-environmental impact sector in Brazil, published mappings, and developed taxonomies and tools to support the ecosystem and the entrepreneur on their journey. With great pride the organization has become a reference for the sector in the country, and has set up Pipe.Labo, a leading center for studies and applied knowledge about the socio-environmental impact market in Brazil.

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Credits



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Participating Investors

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• Yunus Negócios Sociais

And to the other respondents.



Opening Letter

ANDE, in collaboration with its partners, has been tracking impact investments in Brazil and Latin America since 2013. The data from Brazilian investors can be accessed on ANDE's website via the chart.

Since 2020, the Network has aimed to publish annual reports for Brazil, in line with the recommendations from the Alliance for Impact Investment and Impact Businesses' recommendations to monitor the sector's growth in the sector.

Several findings stand out in this second report of the Brazil 2020–2025 series, specifically focused on data from Brazil 2021. Assets under management (AUM) directed toward Brazil grew, especially among the 32 investors that have participated in the study's 2020 and 2021 editions for two years in a row (2020 and 2021). The report also highlights Both the increase in investment volume and the arrival of new players in the sector.

Additionally, this report presents information on the gender and racial compositions of boards and leadership teams within investment firms and the percentage of investments directed to women-led businesses. There is a slight improvement compared to the data reported in 2020. Still, significant challenges remain, underlining and highlighting the importance of investors creating policies to change these inequalities.

Again in the 2021 Report, the study has asked investors again about their alignment of investors with the United Nations Sustainable Development Goals (SDGs) and about measuring greenhouse gas emissions of their portfolio companies. The study has expanded upon the sector questions and delved deeper into impact areas within biodiversity and ecosystem conservation. Based on the Impact ABC framework developed by Impact

Frontiers, one additional question was asked to identify whether investors allocate resources to businesses that seek to mitigate harm or prevent environmental risks.

A special thanks to the partners who have made this research possible through their financial support – Boticário Group Foundation, Fundo Vale, and Potencia Ventures – and to the Alliance for Impact Investing & Impact Business Aliança pelos Investimentos e Negócios de Impacto for providing technical support. Once again, we thank Pipe.Labo, which was our technical partner for this report.

It is a pleasure for ANDE to continue tracking and reporting on impact investment data in Brazil, thereby contributing to an increasingly diverse and sustainable small business sector.



Cecilia Zanotti
Head, ANDE Brasil



Henrique Bussacos
Board Chair, ANDE Brasil

**ANDE REPORTS ON IMPACT INVESTMENTS
IN BRAZIL AND LATIN AMERICA:**



BRAZIL



LATIN AMERICA

Mapping the Impact Investing Sector in Brazil published in 2014

Highlights of Brazil within the Latin America report (2014 and 2015)

The Impact Investment Sector in Brazil: Trends 2016 & 2017

Highlights of Brazil within the Latin America report (2018 and 2019)

Impact Investments in Brazil 2020

Impact Investments in Brazil 2021

The Impact Investing Landscape in Latin America: Trends 2014 – 2015

The Impact Investing Landscape in Latin America: Trends 2016 & 2017

Impact Investing in Latin America: Trends 2018 – 2019

Impact Investing in Latin America: Trends 2020 – 2021

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1 Methodology & Sample

The data in this report come from an online survey developed by the Aspen Network of Development Entrepreneurs (ANDE) in Portuguese, English, and Spanish, conducted with investors active in Latin America. Respondents with assets under management (AUM) in Brazil in 2021 were asked additional questions that focused explicitly on their investments there to allow for additional analysis of the country’s national scenario.


In all, more than 350 Brazilian and foreign investors were invited to answer approximately 40 questions about their funds and investments.

SAMPLE 

93

In total, **93 investors** responded to the survey, **38 of which made impact investments in Brazil in 2021** and were therefore included in the analysis for this report.

38

DATA COLLECTION 

The ANDE team was responsible for developing a survey for investors, which was sent to respondents in English, Spanish, and Portuguese. Data were collected online during the second half of 2022, eliciting voluntary participation and self-declared responses.

The survey included mandatory and non-mandatory open-ended and closed-ended questions.



IMPACT INVESTMENTS

In this research, the term “impact investments” refers only to those investments that:

- + Are invested directly into companies;
- + Have an explicit director for positive social or environmental impact;
- + Have an expectation of a financial return or, at least, capital preservation;
- + Involve a minimum transaction of \$25,000 (via any instrument, including debt, equity, quasi-equity, or guarantees).

*ANDE considered this value as a barrier to entry from your own definition of SGBs (small and growing business) or small businesses in growth that include commercially viable business, with growth potential and which aim to capture from of \$25,000.



INTERVIEWS AND ANALYSES



Pipe.Labo's team reviewed the data collected by ANDE and combined national and international data on the impact of the investment sector and investments. Subject matter experts and survey respondents were engaged throughout the process to provide their perspectives on the observed trends and help contextualize the data.

Considerations for Interpreting the Data

- + Most respondents chose to provide their information in Brazilian Reals (R\$). To compare data submitted in a foreign currency, the conversion was made using the Brazilian Central Bank's official exchange rate on December 31st of the respective year. Deal data in each year was also converted using the average exchange rate during the respective year, as published by the Institute for Applied Economic Research (IPEA).
- + Some questions required respondents to select a single answer while others permitted multiple options to be chosen. Therefore, some charts add up to 100% and others do not.
- + The respondents who reported offering investments in microcredit were considered outliers. These respondents have different characteristics from the other investors, which could distort some of the analysis (e.g. only two organizations make such investments, they represent 41% of the total AUM reported). Where relevant, data relating to these respondents are presented separately, with the remaining respondents referred to as "non-MFI investors". Two respondents are characterized as crowdlending and/or crowd equity platforms. Their answers are considered in all questions, except for the total AUM, to avoid double counting. The data provided on specific deals and exits were insufficient for a segmented analysis.



2 Introduction

Since 2013, the Aspen Network of Development Entrepreneurs (ANDE) has conducted research to provide data and analysis on the Brazilian impact investing market. The 2021 study provides an analysis of how the entrepreneurship sector is helping to drive progress towards the UN Sustainable Development Goals (SDGs).

The study aims to define the Brazilian impact investment market and generate valuable information to assist investors, entrepreneurs, and other stakeholders in making informed decisions. The study is based on the premise that entrepreneurs and their businesses play a crucial role in social and economic development at the local and global levels. By identifying obstacles that need to be overcome and highlighting high-potential sectors, ANDE recognizes that reliable data is indispensable in supporting entrepreneurs and investors.

In 2021, the pandemic continued to have a severe impact on the lives of Brazilians and the overall economic landscape of the country. As a result, inflation rose to 10%, surpassing the Central Bank's target, and led to one of the steepest increases in interest rates in recent history, with rates rising by 7.25 points. By the end of the year, interest rates had reached 9.25% per year.

The negative result of the stock exchange's fall in 2021 can be partially attributed to this type of movement. Despite a positive 5% GDP growth rebound following the sharp decline experienced in 2020, the IBOVESPA closed the year 12% lower. However, the impact investing sector exhibited increased activity compared to the previous year's, demonstrating the persistence and dedication of investors in pursuit of positive impact, even amid such a challenging economic climate.





3 Landscape 2021

• Overview

This report presents the latest market overview, drawing on data from 38 organizations investing in Brazil, out of which 36 directed their assets under management (AUM) toward impact businesses in Brazil in 2021. Among the sample, 30 organizations are based in Brazil, while eight are located overseas, with 34 being non-MFI investors, two being outliers, and two operating as crowdlending/crowd equity platforms. A more detailed description of these categories can be found in the Methodology section of this report.

The reported volume of assets under management (AUM) in 2021 is about 60% higher than the previous year’s survey, rising from R\$ 11.5 billion in December 2020 to R\$ 18.7 billion. Excluding outliers, the 2021 AUM totaled R\$ 11 billion, more than twice the amount reported in 2020, which

was R\$ 4.4 billion. This surge reflects an increase in the portfolios of investors who participated in both surveys (31 investors) and some investors joining or reporting their AUM for the first time, along with the entry of significant new players into the ecosystem.

About 40% of the respondents in the traditional non-MFI investor group (13 out of 34) reported having over R\$ 100 million in AUM in 2021, which accounts for 95% of the total reported AUM of R\$ 11 billion. It is worth noting that there were 319 deals reported in 2021, compared to 183 in the previous year, with only 11 respondents sharing the details of reported deals amounting to R\$ 620 million. As for expected returns, 24 investors seek market-rate returns, while 11 aim for below-market returns.

“The ANDE report offers excellent news from the impact investing ecosystem. The significant growth of assets under management in comparison with previous years is a result of two components: fund managers already active in the field received significant contributions to their funds, and new entrants to the ecosystem began offering impact products. This result demonstrates the increased maturity of the topic in Brazil. Let us celebrate!”

Beto Scretas, Member of the Executive Board of the Alliance for Impact Investments

FIGURE 3.1

OVERVIEW

Sample

N: 38



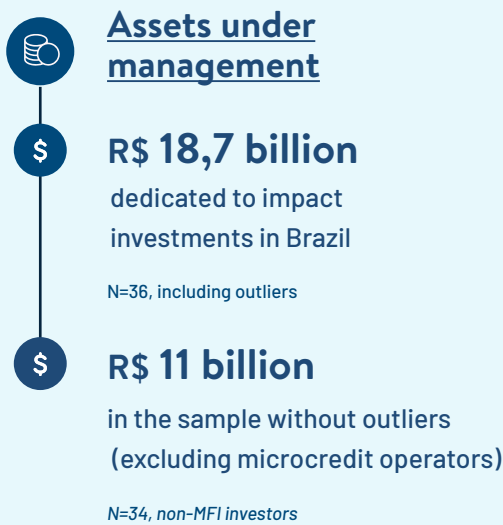
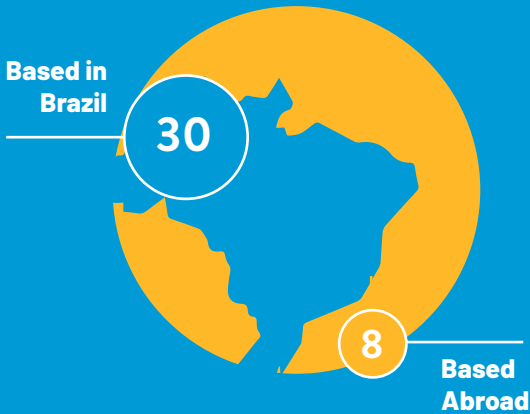


FIGURE 3.1 CONTINUATION

OVERVIEW

Headquarters country

N: 38



Investors used the taxonomy from the annual reports of the Global Impact Investing Network (GIIN) to report the sector breakdown of their portfolios. By aggregating the data based on the composition and amounts invested, we can gain a better understanding of the impact investments in Brazil as of

December 2021. The data shows that the financial services (25%) and food and agriculture (15%) sectors account for 40% of total investment in Brazil. However, when including outliers such as microcredit providers, the microfinance institutions (33%) sector becomes the largest.



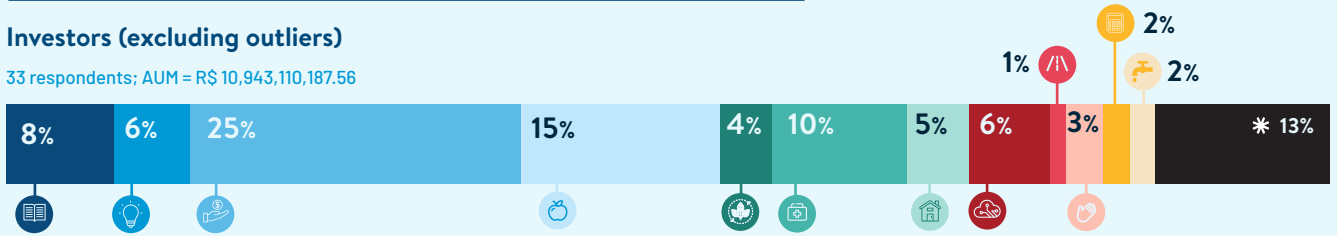
FIGURE 3.2

BREAKDOWN OF INVESTMENT PORTFOLIOS BY SECTOR

% of total AUM by sector

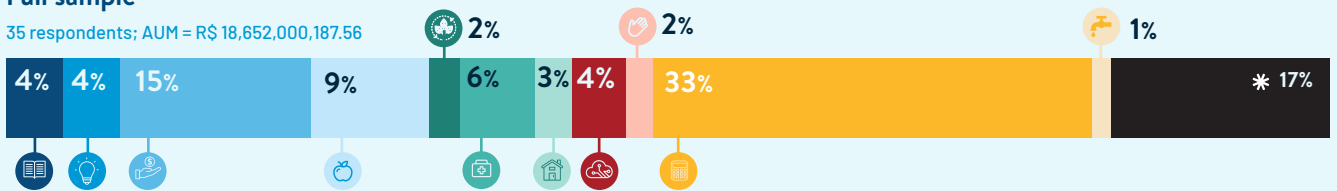
Investors (excluding outliers)

33 respondents; AUM = R\$ 10,943,110,187.56



Full sample

35 respondents; AUM = R\$ 18,652,000,187.56



Legend of Sectors (Figures 3.2, 3.3 e 3.4)

- Arts & Culture
- Financial services
- Health
- Infrastructure
- Water, sanitation, and hygiene
- Education
- Food and agriculture
- Housing
- Manufacture
- Others
- Energy
- Biodiversity and ecosystem conservation
- Information and communication technologies (ICT)
- Microfinance institutions

A significant percentage of investors (55%) have made investments in the food and agriculture sector, while 52% have invested in education. Interestingly, a significant proportion of respondents chose the “other” category, indicating a mismatch

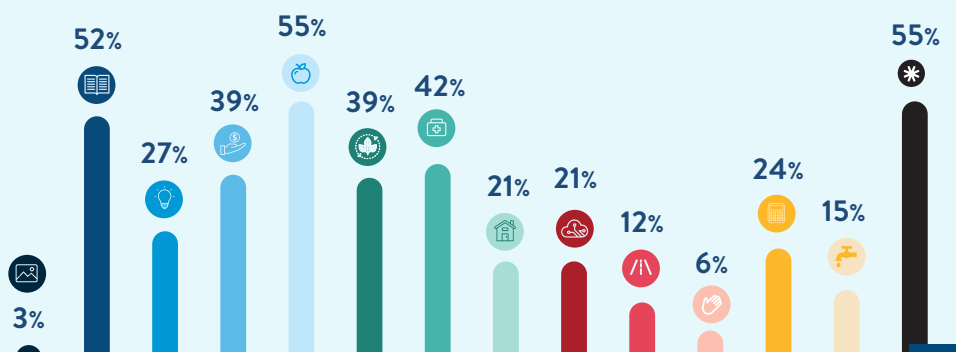
between the sector breakdown used by investors to analyze their portfolios in Brazil and the GIIIN taxonomy. Investors who selected the “other” category highlighted their focus on businesses that prioritize employment and income generation.

FIGURE 3.3

BREAKDOWN OF INVESTMENT PORTFOLIOS BY SECTOR

Frequency of each sector in investors' portfolios

Traditional investors: 33; AUM = R\$ 10,943,110,187.56





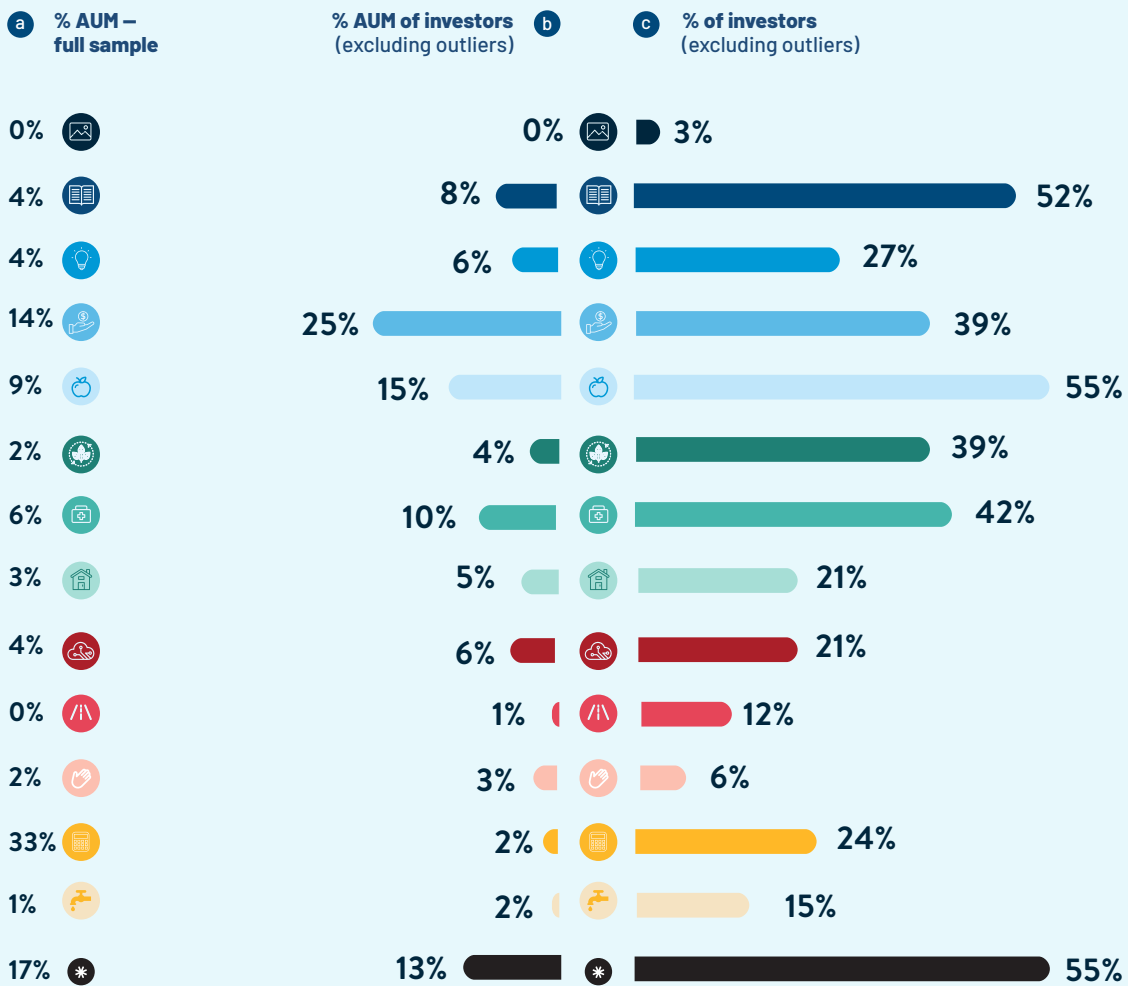
The table below presents a comparison between the percentage of total capital allocated to each impact sector and the frequency with which these sectors appear in respondents' portfolios. Interestingly, the education sector appears in 52% of portfolios, ranking third in terms of frequency, but

only attracts 8% of the AUM invested, placing it in fifth place overall. In contrast, the financial services sector, which is the fifth most frequent sector in portfolios, accounts for the majority of investments (25%), surpassing the second-place food and agriculture sector (15%) by a significant margin.

FIGURE 3.4

BREAKDOWN OF INVESTMENT PORTFOLIOS BY SECTOR

Frequency in portfolios vs percentage of total AUM



Note:
Column a: percentages were calculated based on the full sample (i.e., investors and outliers); AUM sample = R\$ 18,652,000,188.
Column b: AUM percentage excluding outliers; AUM sample = R\$ 10,943,110,188.
Column c: the percentage of traditional investors (i.e., excluding outliers) that have some investment allocated in each of the sectors; N=33; investors can allocate in more than one sector.



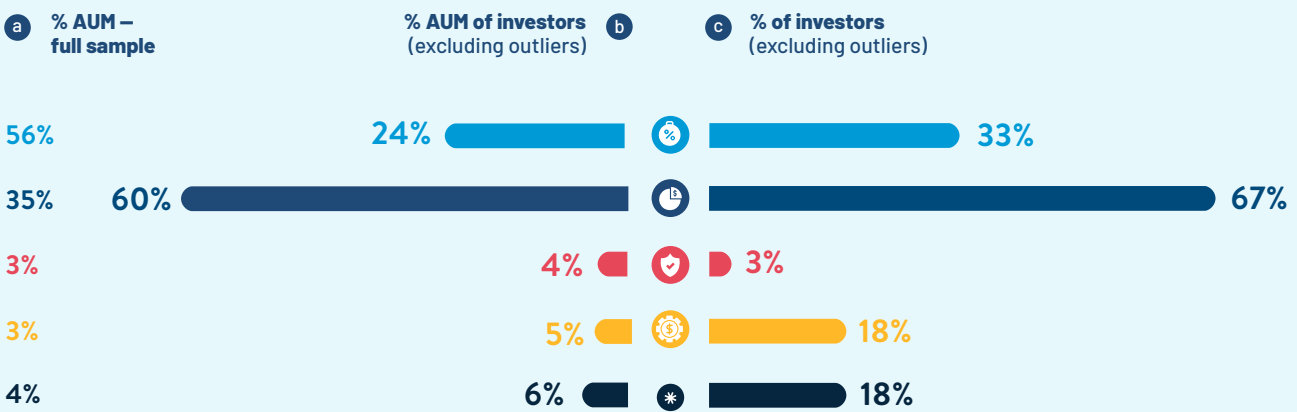
Regarding financial instruments, equity investments are prevalent among non-MFI investors, comprising 67% of their portfolios and 60% of their total capital. However, debt is the most commonly used financial instrument when

including outliers, with MFI investors mainly employing this mechanism. Quasi-equity and “other” structures comprise 18% of portfolios each, with 5% of AUM allocated to each instrument.

FIGURE 3.5

BREAKDOWN OF INVESTMENT PORTFOLIOS BY FINANCIAL INSTRUMENT

Frequency in portfolios vs Percentage of total AUM



- LEGEND**
- Debt
 - Equity
 - Warranties
 - Quasi-equity (e.g., venture debt, mezzanine debt)
 - Others

Note:

Column a: percentages were calculated based on the full sample (i.e., including outliers) of the sample; AUM sample = R\$ 18,652,000,187.56.).

Column b: AUM percentage excluding outliers; AUM sample = R\$ 10,943,110,187.56.

Column c: the percentage of traditional investors (i.e., excluding outliers) that have some investment allocated in each of the financial instruments; sample = 33; investors can allocate in more than one type of instrument.



4 Profile of Investors

Of the respondents, a majority 30 are based in Brazil, and 53% are for-profit fund managers. The remaining eight respondents based abroad comprise

three for-profit fund managers, three non-profit fund managers, and two development/multilateral banks or institutions.

FIGURE 4.1

INVESTOR PROFILE

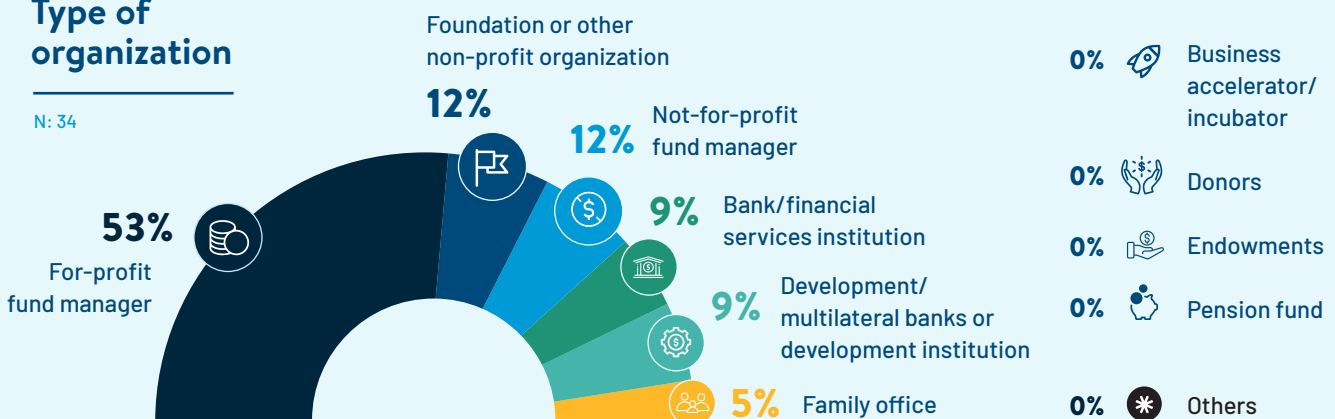
Headquarters

N: 38



Type of organization

N: 34





The survey asked investors about the source of their capital, which sheds light on their financial return expectations. Most respondents (71%) reported receiving investment capital seeking financial returns, followed by 37% who invested their resources. Among investors based in Brazil, the second most common source of capital is their resources (40%), while among those based abroad, it is donations/philanthropic capital (four out of eight).

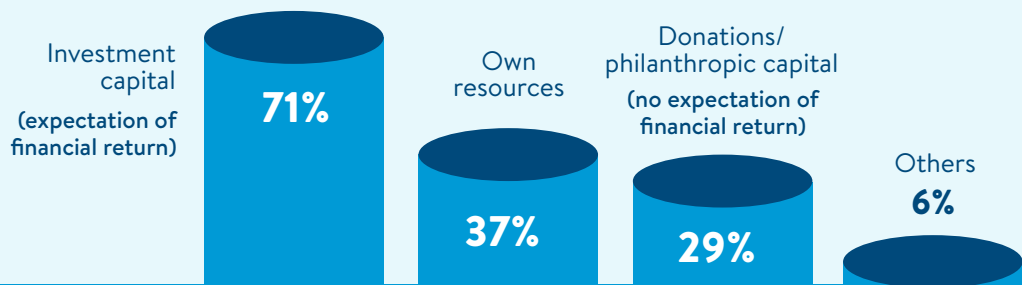
Regarding fundraising, most investors (71%) raised funds from high-net-worth individuals and family offices, consistent with previous studies on the Brazilian impact investing sector. The “other” category (20%) suggests that some respondents used different terms to describe the types of invested resources than those provided in the survey options.

FIGURE 4.2

ORIGIN OF RESOURCES

Types of resources (AUM)

N: 35



Origin of resources

N: 35

71% High-net-worth individual (HNWI)/ Family offices

34% Foundations

29% Development/multilateral banks, development agencies, DFIs (Development Finance Institutions)

29% Funds of funds

17% Donors (excluding foundations)

17% Banks and financial services institutions

- 14%** Pension funds
- 14%** Retail investors
- 9%** Sovereign wealth funds
- 6%** Insurance companies
- 3%** Religious institutions
- 3%** Endowments

20% others



The majority of respondents source their capital from Latin America and the Caribbean (80%), followed by the United States and Canada (37%) and Europe and Central Asia (31%). Notably, investors based in Brazil primarily rely on local funding, with 96% raising capital within the country. However, some respondents also secured funds from other countries in the region, such as Mexico (7%),

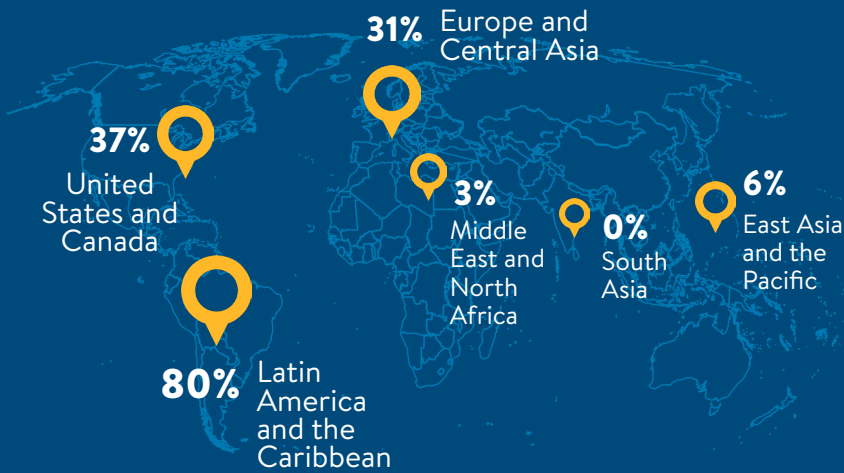
Argentina (4%), and Paraguay (4%). As depicted in the infographic below, those based abroad also invest in various Latin American countries outside of Brazil. Among investors based in Brazil who invest in other Latin American countries, Argentina, Chile, Colombia, Mexico, Peru, and Uruguay are the top destinations.

FIGURE 4.3

COUNTRIES

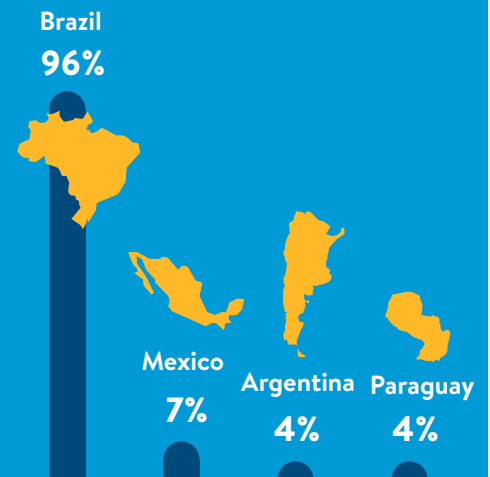
Where capital was raised (% of investors)

N=35



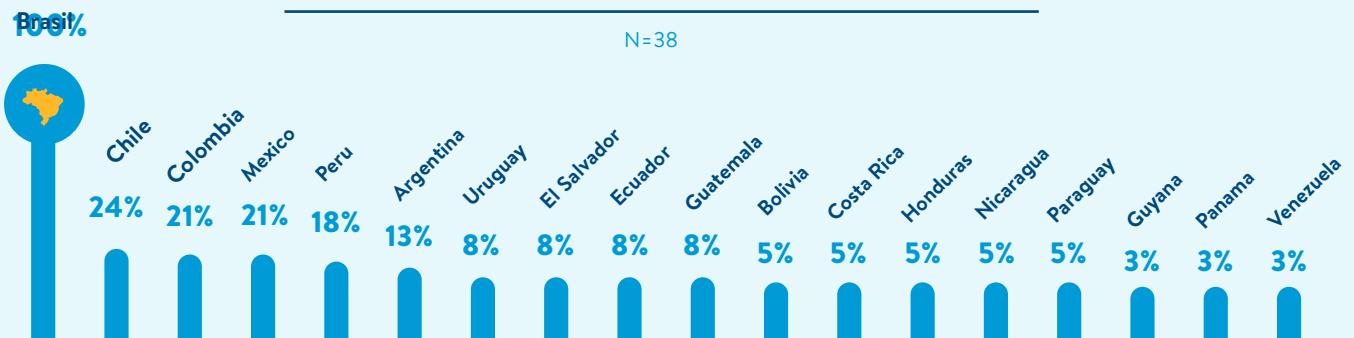
Where capital was raised in Latin America (% of investors based in Brazil)

N=28



The following is a list of Latin American countries in which respondents reported investing:

N=38





When asked about the year they began making impact investments in Brazil, respondents based abroad showed a concentration in 2016 and 2017.

On the other hand, the number of respondents based in Brazil has steadily increased over the last decade, with new investors entering the market every year.

FIGURE 4.4

IMPACT INVESTMENT MARKET

Year of first impact investment in Brazil

N=37

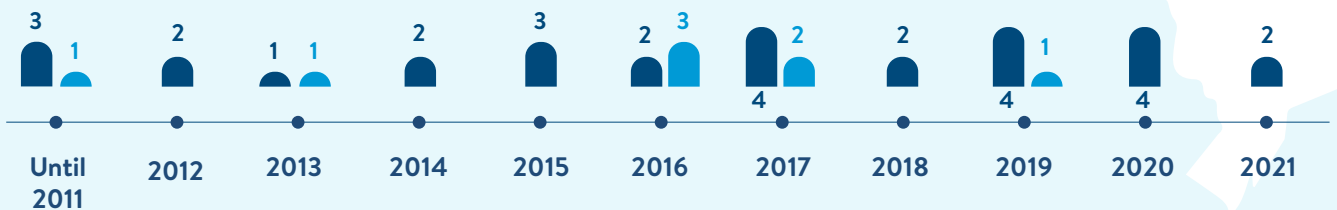
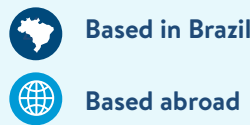


FIGURE 4.5

ABC IMPACT FRONTIERS

Types of ventures in which respondents aim to invest

categories are based on the ABC categorization by [Impact Frontiers](#)



Type C: Contribute to solutions

enterprises actively improve the well-being of a group of people or the condition of the natural environment so that the outcome is within the sustainable range.



Type B: Benefit stakeholders

in addition to acting to avoid harm, companies seek to maintain or cause improvements in the well-being of one or more groups of people and/or the condition of the natural environment



Type A: Act to avoid harm

at a minimum, enterprises can act to avoid harm by identifying where the organization (or asset) is causing harm to people's well-being and the condition of the natural environment and improve those outcomes

The survey included questions about the impact focus of organizations' investments, classified according to Impact Frontiers' ABC framework (for more information, see references). Among all respondents, 25% reported making traditional investments without impact criteria. Most respondents (81%) aim to contribute to solutions that actively improve the well-being of people or the environment (type C), and 41% target benefiting stakeholders by maintaining or causing improvements in the well-being of one or more groups of people (type B). Section 6.9 provides a more detailed analysis of this question based on AUM.



No impact criteria

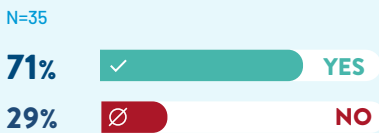
Any company, regardless of the positive or negative impact implications.



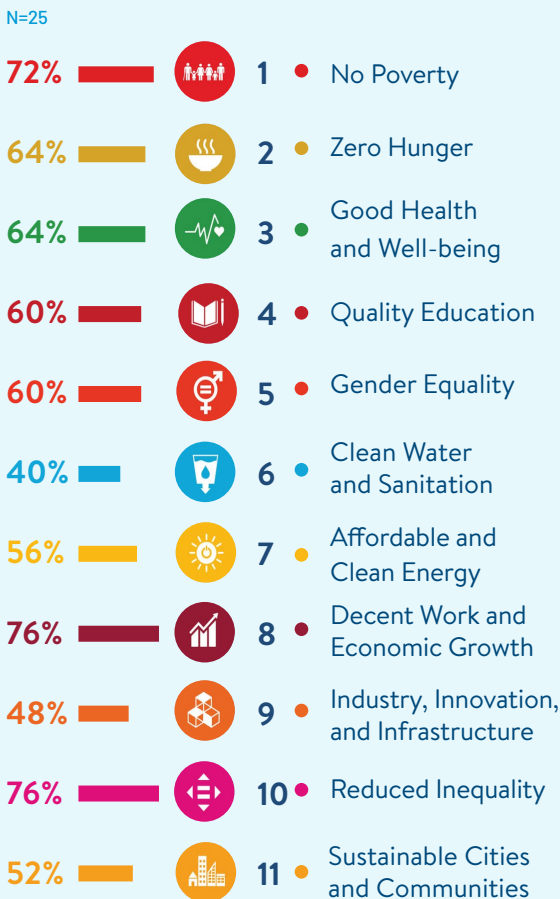
5 Impact Intentions

FIGURE 5.1 SDGs - UNITED NATIONS

Alignment of investment strategies with the United Nations Sustainable Development Goals (SDGs)



Investors that align with the SDGs focus on:



Investors in Brazil place great importance on aligning their investments and interests with the United Nations Sustainable Development Goals (SDGs). While there has been a slight decrease in this alignment from 82% in 2020 to 71% in 2021, it is still a crucial metric.


Furthermore, the specific SDGs with which investors align their investments have also shifted. In 2020, the pandemic led to a focus on health and wellbeing, reducing inequalities, and climate change. In 2021, there was a greater alignment with SDG 1: No Poverty (72%) and SDG 8: Decent Work and Economic Growth (76%), alongside reducing inequalities (76%), which has always been a priority in Brazil. Investors abroad tend to align more with SDG 3: Good Health and Wellbeing (four out of six) and SDG 12: Responsible Consumption and Production (four out of six). For investors based in Brazil, there is a greater emphasis on SDG 2: Zero Hunger (60%).






The ANDE Brazil report has tracked gender and race considerations within impact investing organizations and their portfolios since 2020. In 2021, the report found that 47% of investors had policies promoting gender and racial equality in their internal hiring processes, while 40% still lacked such policies. However, an even more significant percentage (58%) did not use gender or racial equality policies when choosing their investments.

Gender appears to be the issue that more investors are trying to address, with more organizations having gender equality policies for hiring than racial equality policies. However, organizations with racial equality policies for hiring typically have gender equality policies. Notably, while more investors are interested in supporting businesses impacting race and gender issues, they seem to be less focused on investing in businesses led by women or non-white leaders. This finding is consistent with the impact approach reported in Figure 4.5.

 *“The rebuilding of democracy involves valuing diversity. Beyond the ethics and reparation of a historical injustice, we are certain that incorporating diversity into our investment thesis also contributes to financial results, differentiating us from traditional venture capital funds. Recent studies show that the number of female partners in a fund manager has a direct correlation with the fund’s performance, and our experience corroborates this: 2/3 of our founding partners are women and half of our investments, including top-performers, have women in leadership. We also focus a significant part of our investments on catalyzing solutions that meet latent demand from the base of the socioeconomic pyramid, and we are proud to highlight that the largest portion of our capital was allocated to products and services that directly benefit this portion of the population. We are in an era where omission and incoherence no longer have a place: if an impact fund does not go deeper into everything that speaks to the challenges of equality, diversity, inclusion and belonging, we will be incoherent. We need to act as an example for the companies that go through our pipeline, especially the investments in our portfolio, and inspire the Venture Capital ecosystem and the entire financial market, aligning what we do with how we do it”.*

Andrea Oliveira Kestenbaum, CEO and co-founder of Positive Ventures

 *“Observing the data, we see an increase in interest in the topics of poverty, decent work and education. Investors are reacting to the profound consequences of the pandemic such as unemployment, hollowing out of professions, difficulty in accessing digitalization, etc. On the other hand, we also see that decision makers are typically still white males. Access to and discussion of the role of women in the investment market has grown along with external movements in the US and Europe. However, questions of race are not seen with the same force there (Blacks represent 14% of the population of the United States), which impacts the pressures here, despite Brazil being a country where Blacks make up 53%. Demography tells us that this is an urgent matter! At Potencia, we created PotenciaUP, a fellowship to create*



diverse deal flow. Selected entrepreneurs will have access to English classes, fundraising workshops, business modeling, Theory of Change and Product Market Fit, and a community in which to share with experienced entrepreneurs and investors. This will prepare them to receive investments up front. I think Brazilian investors look at profiles of very traditional entrepreneurs and believe they are finding the best investments, but they may just be finding the best investments inside a bubble. Investors need to learn to approach entrepreneurs with other profiles, interact more closely with them, generate value and better understand who they invest in."

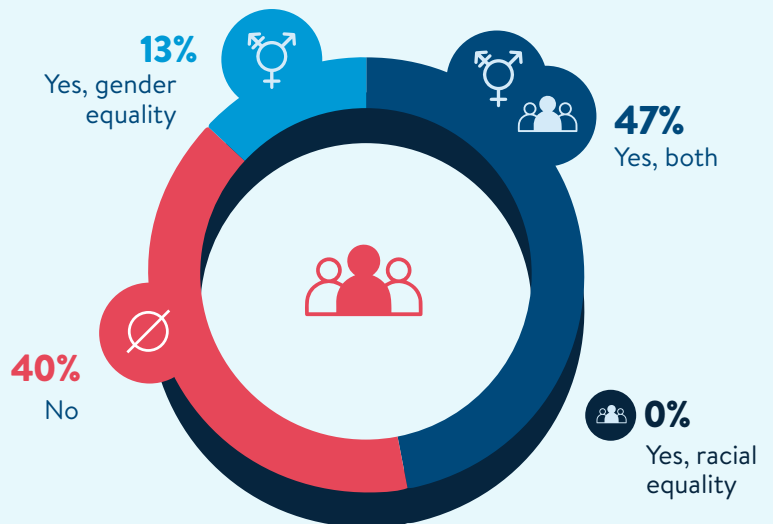
Itali Collini, Potencia Ventures

FIGURE 5.2

EQUITY

Gender or racial equality in internal hiring processes

N=30



Use of gender or racial equality policies in the process of choosing investees

N=38

58%

No, we do not have investment policies for gender or racial equality



32%

Yes, we have investment policies to invest in businesses with solutions that impact gender issues in Brazil



26%

Yes, we have investment policies to invest in businesses led by female or non-binary entrepreneurs



24%

Yes, we have investment policies to invest in businesses with solutions that impact race or ethnicity issues in Brazil



13%

Yes, we have investment policies to invest in businesses led by non-White entrepreneurs





Data on race and gender were collected for investors' boards of directors and leaders, revealing mixed results. Out of the 19 respondents that provided board data, 17 had at least one female director, while 167 out of 250 board members were men and 83 were women. Of the 23 respondents who shared data about their leadership, 20 had women in leadership positions, with 169 men and 71 women among the 240 members in leadership positions.

However, the data on racial diversity could have been more encouraging. Of the 15 respondents that provided information, 12 had only White people on their boards. Among leadership positions, 12 of 19

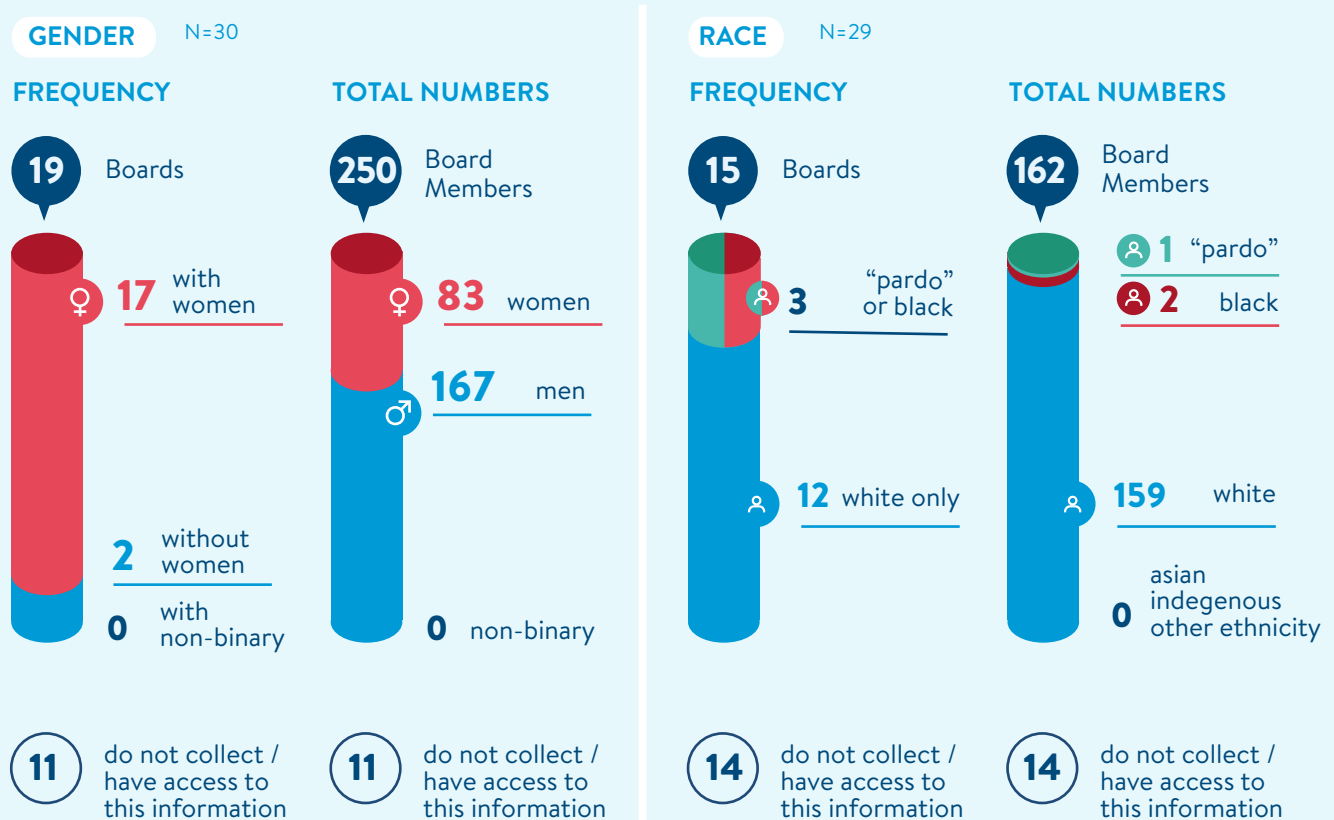
respondents had only White people, five had Black or Pardo leaders, and four were Asian. The aggregate data showed a large concentration of White board members, with only three out of 162 being non-White, and 22 out of 210 leadership positions being non-White.

It is worth noting that over one-third of respondents either do not collect or need access to this information. Regarding investments, 42% did not invest in solutions led by women, while 29% reported making over half of their investments in women-led businesses during 2020-2021.

FIGURE 5.3

EQUITY

Profile of investors' boards of directors

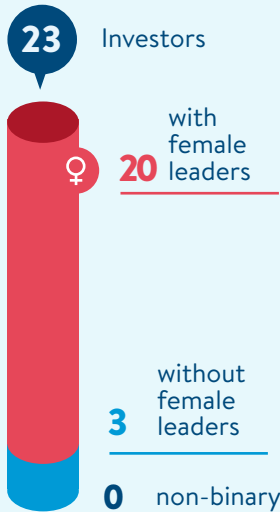




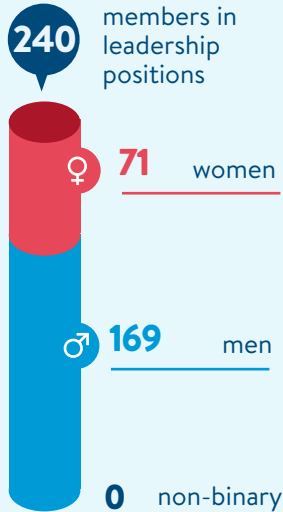
Profile of respondents' leadership positions (positions equivalent or higher hierarchically to the position of manager)

GENDER N=29

FREQUENCY



TOTAL NUMBERS

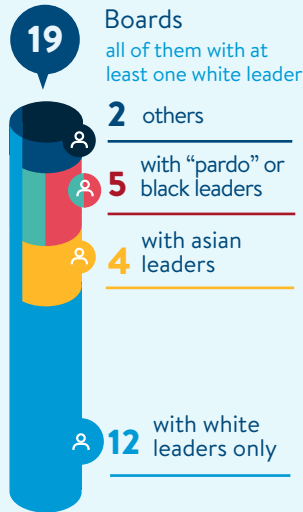


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6 do not collect / have access to this information

RACE N=30

FREQUENCY



TOTAL NUMBERS



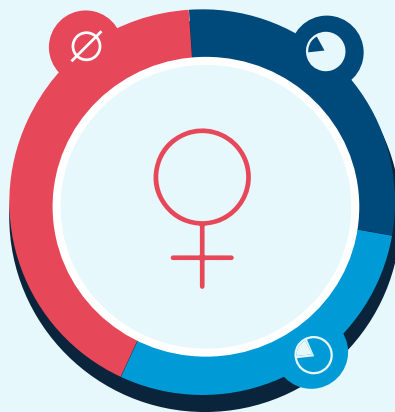
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Investors making investments in women-led businesses in 2020–2021

N=31

42%
of organizations **did not invest** in women-led businesses



0%
of organizations made **all their investments** in women-led businesses

29%
of organizations made **more than half** of their investments in women-led businesses

29%
of organizations made **less than half** of their investments in women-led businesses



When asked about measuring the socio-environmental impact of their investees, 57% of respondents reported doing so in all cases. Among the measurement tools used, proprietary solutions were the most popular choice, selected by 43% of respondents. This trend is expected in the sector, as many investors develop and customize solutions to meet the specific needs of their investments, which are only sometimes met by standardized tools, particularly for businesses in the early stages.

The B Impact Assessment, Impact Management Project, and IRIS+ were also frequently used impact assessment tools, each selected by 38% of respondents. It is worth noting that only investors based in Brazil used the B Impact Assessment, while overseas-based investors did not mention GRI or Model C as options. Some organizations that selected “other” did not provide further details, while a few reported that they did not measure impact or use different versions of their tools.

FIGURE 5.4

MEASUREMENT OF IMPACT

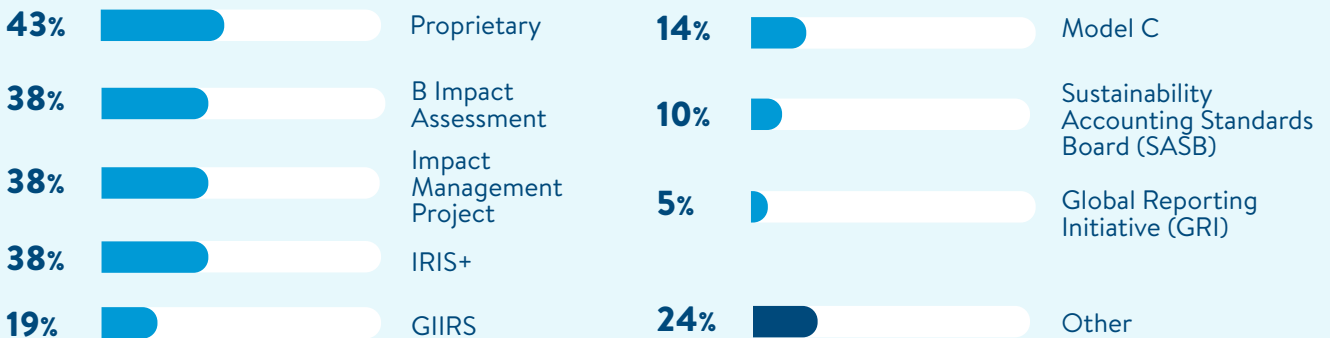
Measurement of social / environmental impact of invested businesses

N=35



Measurement tools

N=21



Regarding the climate agenda, survey respondents expressed a strong interest in developing the topic further and monitoring related impacts more closely. However, there are challenges in implementing such initiatives. Most investors

(86%) currently need a process for assessing and managing climate risk in their portfolios. While 66% plan to design such a process in the future, 20% do not intend to.



Moreover, most investors (63%) do not currently measure greenhouse gas emissions but intend to do so within the next two years. Only 20% of all respondents measure emissions from all or some of their investments. About half of the investors stated that they currently have no initiatives to engage stakeholders on climate change issues but intend to do so soon.

However, during the 2020-2021 period, 71% of respondents invested in impact businesses addressing climate change, with 26% dedicating all of their investments during that timeframe to such businesses. It is worth noting, however, that some investors in the study did not make investments during that period.



“There is a lot of interest in biodiversity from investors, but still little investment made in businesses in this sector, which leads us to believe that investors prefer to seek opportunities in more consolidated sectors, with greater chances of return. This reinforces the importance of investment from the philanthropic sector, aimed at strengthening and preparing businesses in less consolidated sectors, so that they gradually have a greater chance of receiving investments seeking returns. To this end, we have a partnership with Trê Investimentos and Parsifal 21 that prepares small and medium-sized businesses with positive socio-environmental impact to access customized credit solutions in the Atlantic Rainforest Reserve. This supports development that is linked to conserving the largest continuous remnant of this biome. Since 2019, the Boticário Group Foundation has also carried out the Entrepreneurial Nature Program, executed by Sebrae. This program has accelerated more than 70 businesses with a positive environmental impact in regions that are strategic for Atlantic Rainforest conservation in the states of Paraná, São Paulo, Santa Catarina and Rio de Janeiro.”

Guilherme Karam - Boticário Group Foundation for Nature Protection

FIGURE 5.5

CLIMATE AGENDA

Investors with process to manage and assess climate risks for investment portfolio

N=35



66% do not yet manage climate risks but intend to in the future

20% have no intention of managing climate risks

14% yes

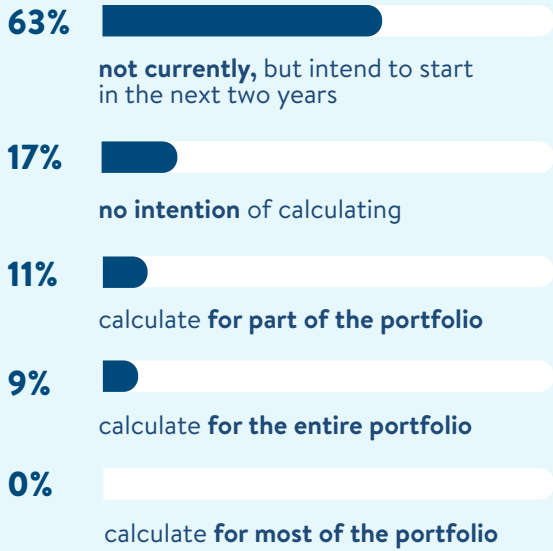


FIGURE 5.5 CONTINUATION

CLIMATE AGENDA

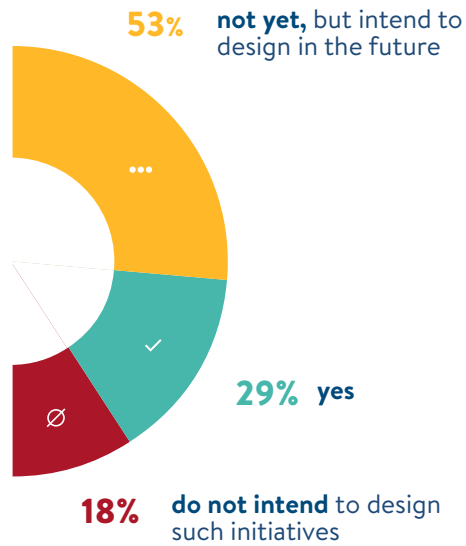
Investors measuring greenhouse gas emissions of portfolio

N=35



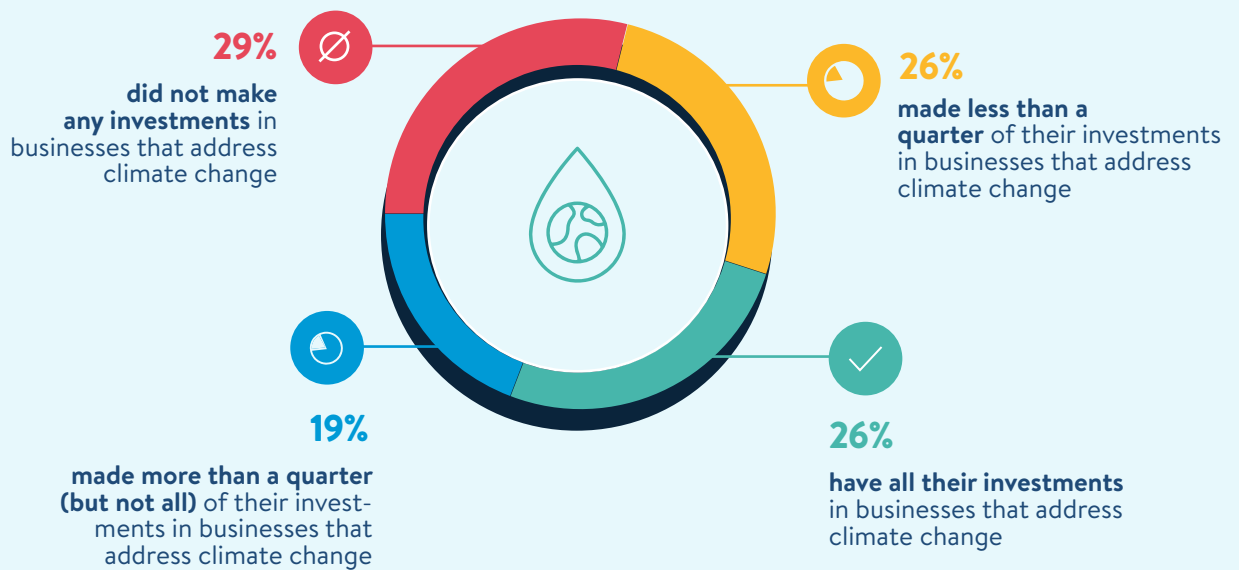
Investors with initiatives to engage stakeholders on climate-change issues

N=34



Investors making investments in businesses addressing climate change 2020–2021

N=31





6 Investments

• Sectoral Focus Investments

Investors have shown the most interest in the food and agriculture sector, with 78% of respondents prioritizing it. Education follows at 64%, with health at 58% and biodiversity and ecosystem conservation at 56%.

Using the same GIIN typology as in the 2020 survey, the results can be compared to observe changes in sector priorities over time. In 2021, food and agriculture increased significantly

from 50% to 78%, surpassing health as the most commonly prioritized sector.

Investors also demonstrated a growing interest in energy, which increased from 40% to 50%, and information and communication technologies (ICT), which increased from 24% to 36%. In contrast, there were significant decreases in the housing and microfinance sectors, which fell to 22% in 2021 from 34% and 32%, respectively, in 2020.

FIGURE 6.1

PRIORITIZED SECTORS

Prioritized sectors

N=36

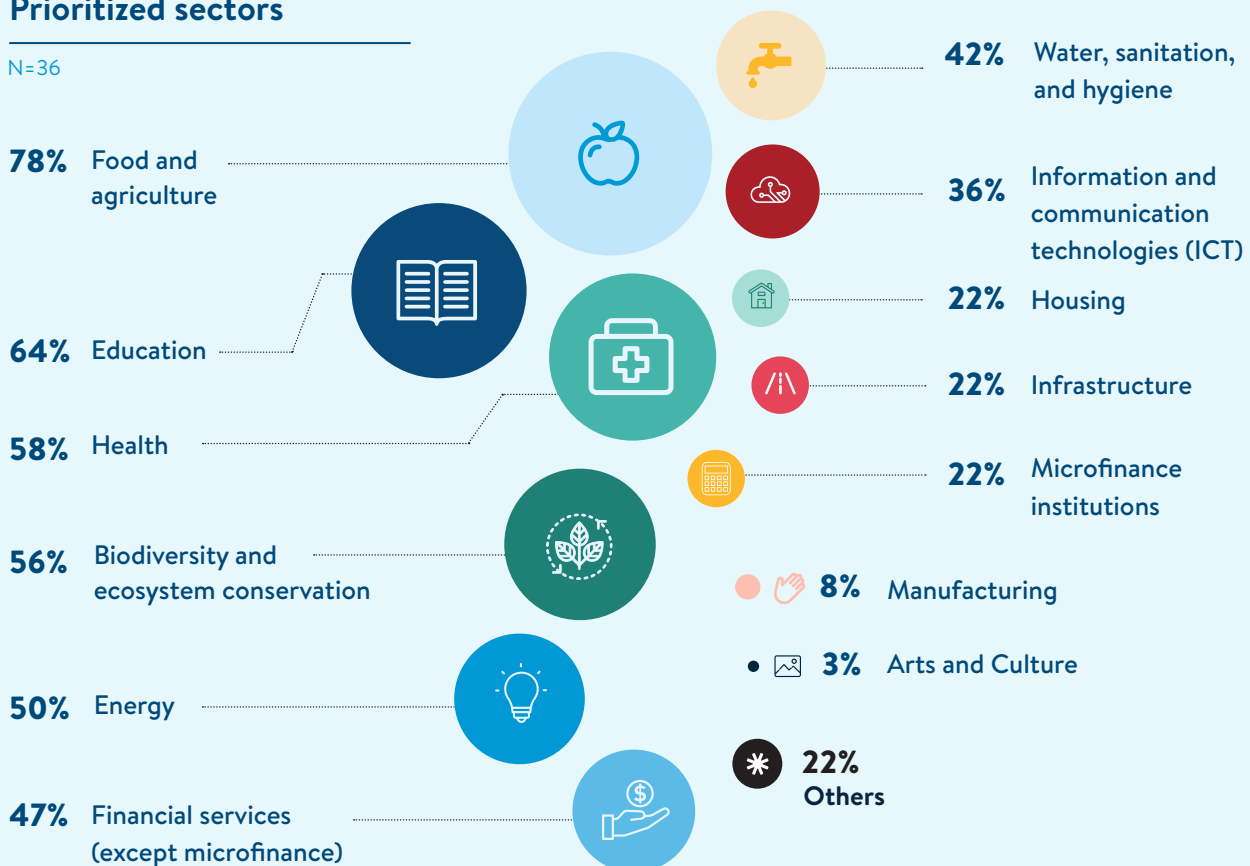




FIGURE 6.1 CONTINUATION

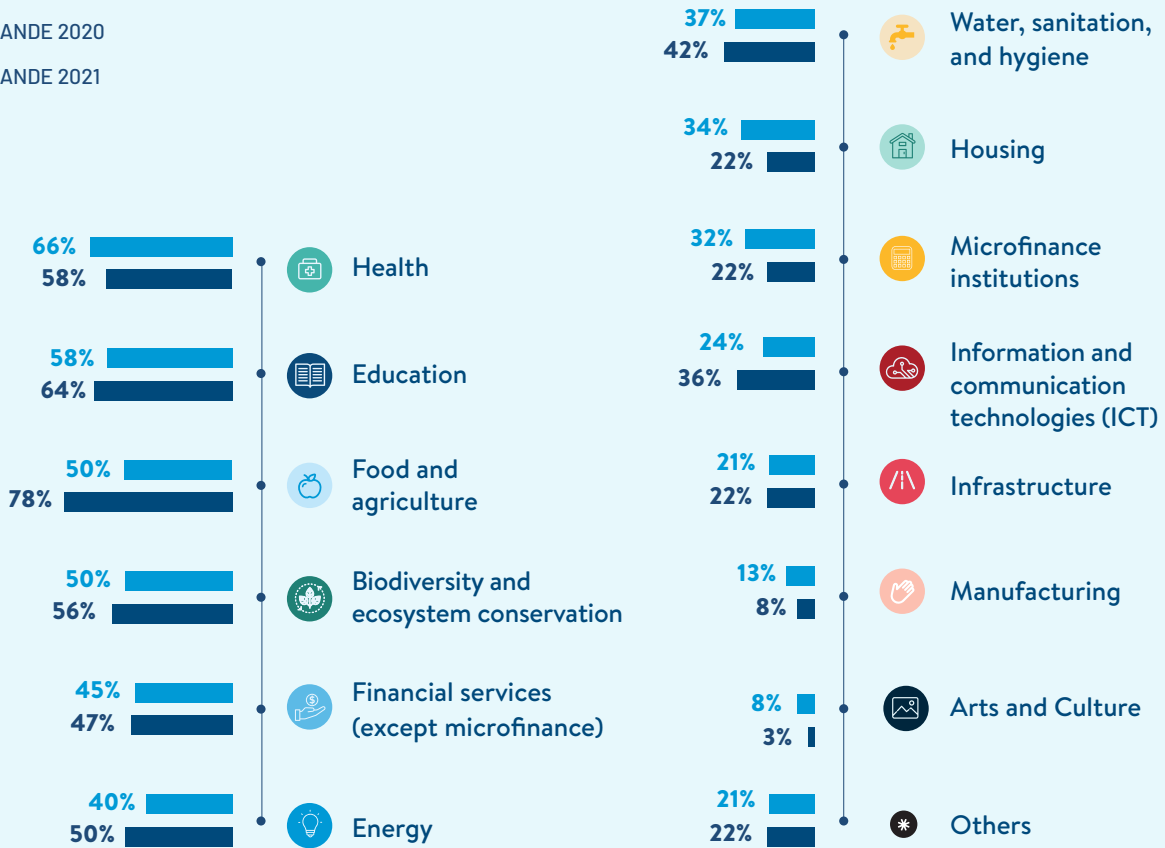
PRIORITIZED SECTORS

**Prioritized sectors:
2020 vs. 2021**

Sample:
Brazil 2020: 38
Brazil 2021: 36

LEGEND

- ANDE 2020
- ANDE 2021



Investors were asked two questions regarding investments in the environment and climate change. The first set was directed at those who invested in biodiversity and ecosystem conservation. They were asked to identify which sub-sectors they prioritize in those investments. The second set of questions was aimed at all investors, asking if they prioritize impact investments in green technology. Those who answered positively were then asked to specify the areas of green technology they intend to invest in.

Sustainable agriculture was the most common focus area for investors prioritizing investments

in the biodiversity and ecosystem conservation sector. Biodiversity production chains, waste management, and forest restoration were tied for second place, with each sub-sector being favored by ten investors. Only one investor sought opportunities in ocean sustainability and river basin protection.

Concerning green technologies, circular economy and material efficiency, energy and biofuels, and forests and land use were each preferred by 70% of respondents. Waste management followed at 65%, while sustainable tourism and air quality were the least prioritized areas, being favored by only 15% of investors (three out of the 20).

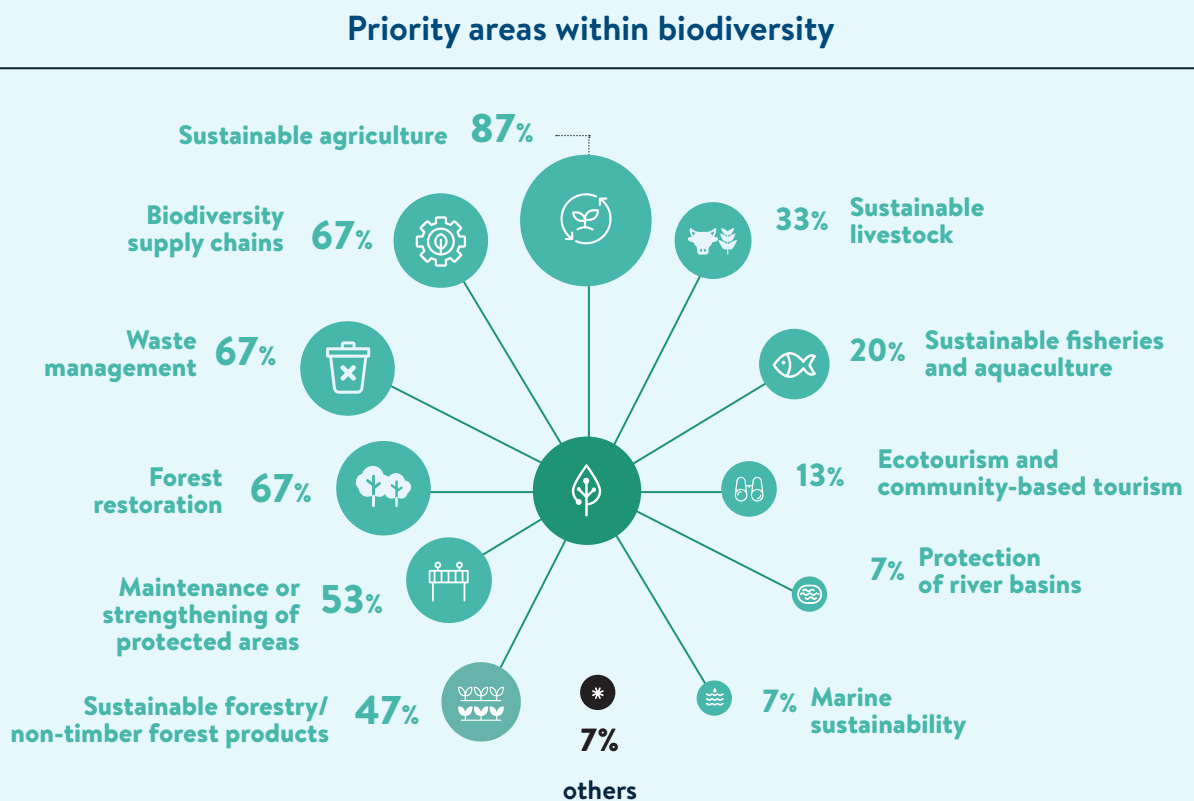


“In 2020 we created a new theory of change and positioned ourselves as an organization that promotes a more sustainable, fair and inclusive economy. Our focus turned to socio-environmental impact businesses in the forest and climate agenda. To move forward in this area, we consider it fundamental to allocate resources to strengthening these businesses and the surrounding ecosystem, and to financial vehicles that can invest in them. We already had a lot of experience in the former, working in a traditional philanthropy model. But on the investment side, we needed to dive into the topic and understand how we could get involved to strengthen the market. Today we have a portfolio and budget dedicated to two fronts: fostering and investment. Despite growing interest, there are still few organizations focused on promoting the biodiversity economy and forest restoration, for example. Today, we realize that we have an important role in boosting this socio-bioeconomy, and that is why we maintain frequent dialogue and partnerships with institutions such as BNDES (Brazilian National Development Bank) and others, helping to create and strengthen initiatives such as Conexsus, AMAZ, Climate Ventures, Jornada Amazônia and Latimpacto. We know where we want to go and we understand that we need to innovate in solutions for the sector and learn together. We have supported the creation of differentiated financial mechanisms in order to scale impact. But we want others to come together, we want to strengthen the ecosystem as a whole.”

Patricia Daros, Executive Director of Fundo Vale

FIGURE 6.2

GREEN TECHNOLOGIES





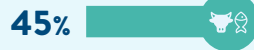
Areas of green technology where investments are concentrated

N=20



Circular economy and material efficiency

products/services aimed at closing material cycles and decoupling consumption from economic growth by minimizing material waste and facilitating recovery and recycling at the end of a product's life cycle.



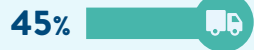
Agriculture and fisheries

products/services aimed at sustainability of grain, cattle, fish, and other crops and livestock, including input suppliers and agricultural traders .



Energy and biofuels

products/services aimed at the generation, transmission, and distribution of energy from renewable and efficient sources, as well as the production and sale of biofuels, energy storage, and infrastructure.



Logistics and mobility

products/services offering solutions with a positive environmental impact for the movement of cargo and passengers, including various modes of transport (rail, waterway, air, and road) as well as transportation infrastructure.



Air quality

products/services aimed at reducing air pollution and removing harmful pollutants, both indoors and outdoors.



Forests and soil use

products/services aimed at timber and non-timber socio-biodiversity value chains, and activities for recovery and maintenance of natural terrestrial or marine areas for conservation purposes.



Water sanitation

products/services aimed at construction or management of infrastructure for water supply, urban drainage, and collection and treatment of liquid effluents (sewage).



Sustainable Tourism

business models and technologies aimed at ecotourism, nature tourism, and community-based tourism, which contribute to the conservation of local ecosystems.



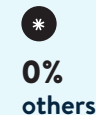
Waste Management

products/services aimed at the treating solid waste, including management, collection, separation, reuse, and recycling.



Construction

products/services aimed at improving the sustainability of the construction, maintenance, management, and demolition of buildings.



others

Investors show a preference for seed (60%) and venture (57%) stage investments, typically ranging from US \$100,000 to US \$4 million. There is a slight discrepancy between local and foreign investors: of the 27 local respondents, 60% invest in the seed stage, while foreign investors focus more on the venture stage.

Compared to 2020, more investors are now investing in businesses at the pre-seed stage (up from 29% to 40% in 2021). Interestingly, this demand for more pre-seed investment has been highlighted by previous studies from Pipe.Labo. Additionally, more investors are supporting mature private companies, potentially reflecting a shift in attitudes toward impact investing among more traditional investors and an increased interest in ESG investing.

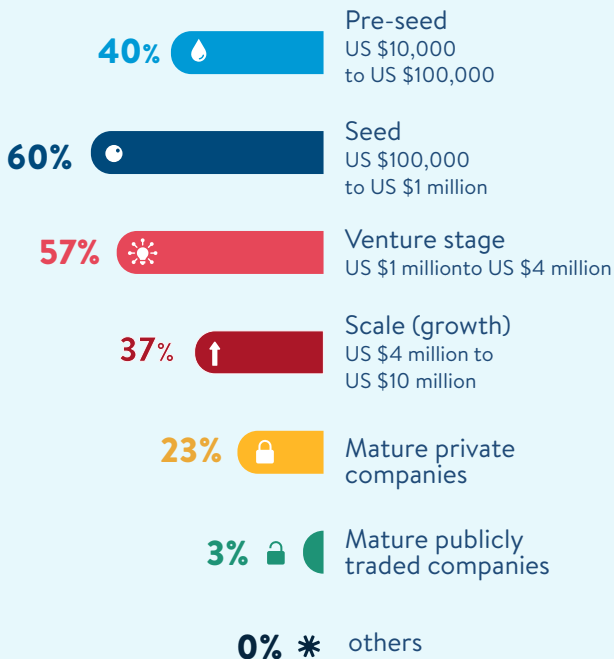


FIGURE 6.3

STAGE OF INVESTEEES

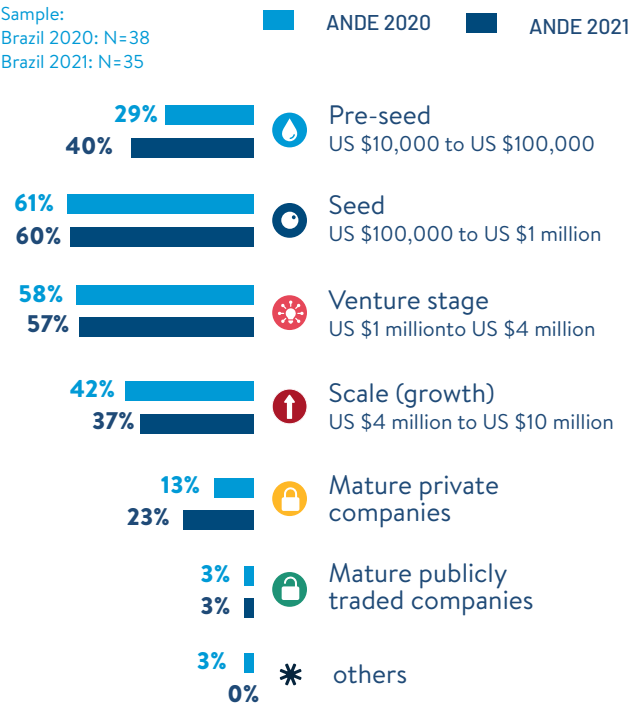
Stage of investees

N=35



Stage of investees: 2020 vs. 2021

Sample:
Brazil 2020: N=38
Brazil 2021: N=35



Investors generally prefer equity investments over debt, with 71% of respondents favoring equity compared to 66% for debt. Interestingly, this preference is even more vital for investors based in Brazil, with 75% favoring equity compared to 59% for debt. Meanwhile, debt is the preferred instru-

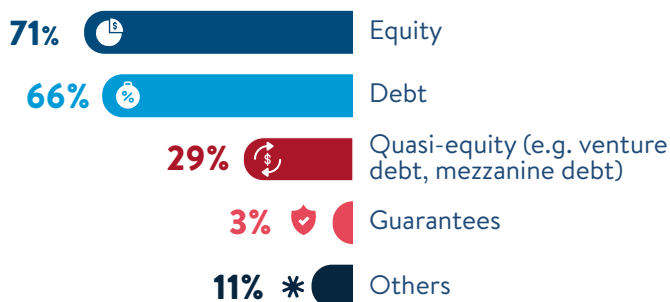
ment for most investors based abroad, with seven out of eight respondents using it. However, hybrid financing structures, such as quasi-equity, remain less popular, with only 29% of respondents using them. Additionally, 66% of respondents reported not using any form of blended finance structure.

FIGURE 6.4

FINANCIAL INSTRUMENTS

Financial instruments used for investments (% of investors)

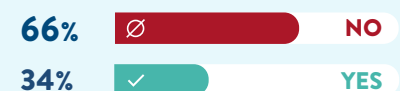
N=35



Use of blended finance structures

(% of investors)

N=35





• Methods of investment

Some noteworthy observations can be drawn when comparing the sectors investors prioritize with their investment portfolios. In most cases, investors intend to invest in sectors that exceed their current deal flow. This suggests that investors prioritize sectors where they still need to invest. The most notable example is the water, sanitation, and hygiene sector, which is prioritized

by 42% of respondents but appears in the portfolios of only 15%. A similar trend is seen in the energy and food, and agriculture sectors. However, microfinance institutions and arts and culture are exceptions to this trend. The difference between intention and action is relatively small for housing, financial services, and manufacturing.

FIGURE 6.5

PRIORITIES


Prioritized sectors versus invested sectors

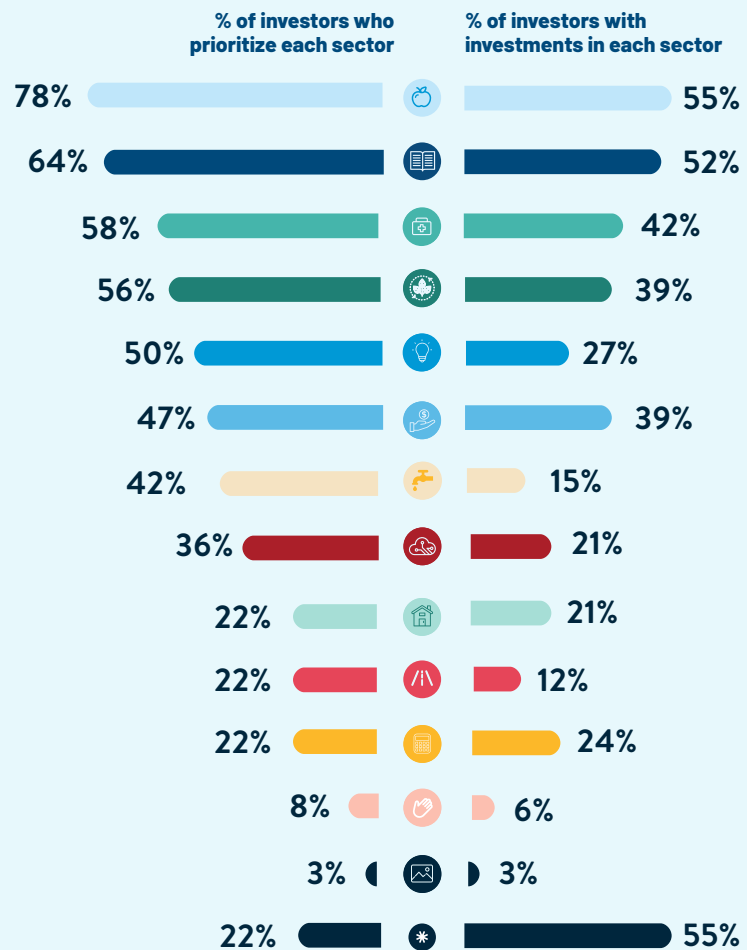
Sample:

Left column
(prioritized sectors):
N=36 respondents

Right column (invested sectors):
N=33 respondents, without outliers.

Legend

-  Arts and Culture
-  Education
-  Energy
-  Financial Services
-  Food and agriculture
-  Biodiversity and ecosystem conservation
-  Health
-  Housing
-  Information and communication technologies (ICT)
-  Infrastructure
-  Manufacturing
-  Microfinance institutions
-  Water, sanitation, and hygiene
-  Others





Investors in impact investing face balancing financial returns with socio-environmental impact. According to the survey, 69% of respondents aim for risk-adjusted market-rate returns, while 31% aim for below-market returns. Most investors based in Brazil (74%) prioritize risk-adjusted market-rate returns. The group is evenly divided among foreign-based investors between

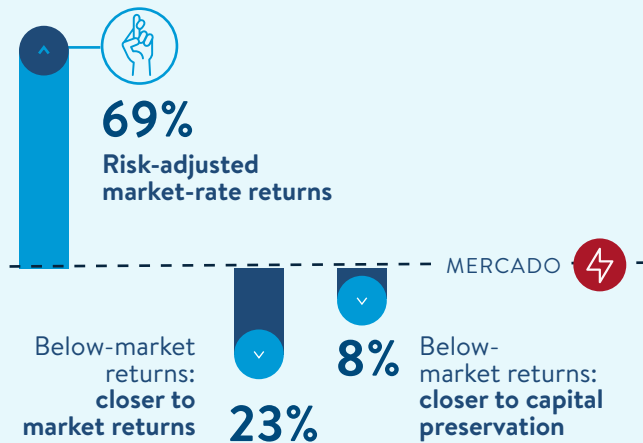
market-rate and below-market returns, focusing on capital preservation. Interestingly, almost half of the respondents (49%) have lowered their financial return expectations to invest in businesses with significant socio-environmental impact. This trend is more common among foreign-based investors, with five out of the eight respondents reporting doing so.

FIGURE 6.6

FINANCIAL RETURNS

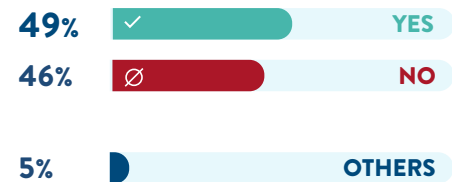
Target financial returns

N=35



Organizations that have reduced financial return expectations in exchange for social or environmental impact

N=35



According to the survey, impact investors utilize various channels to discover investment opportunities. The three most frequently cited methods are referrals from partners in the impact ecosystem (77%), co-investments with partners (74%), and inbound marketing (74%). However, some

differences exist between investors based in Brazil and those based abroad. Local investors rely more on inbound marketing and co-investments with partners. In contrast, foreign investors often utilize their recruitment teams and participate in ecosystem events (seven out of eight in both cases).

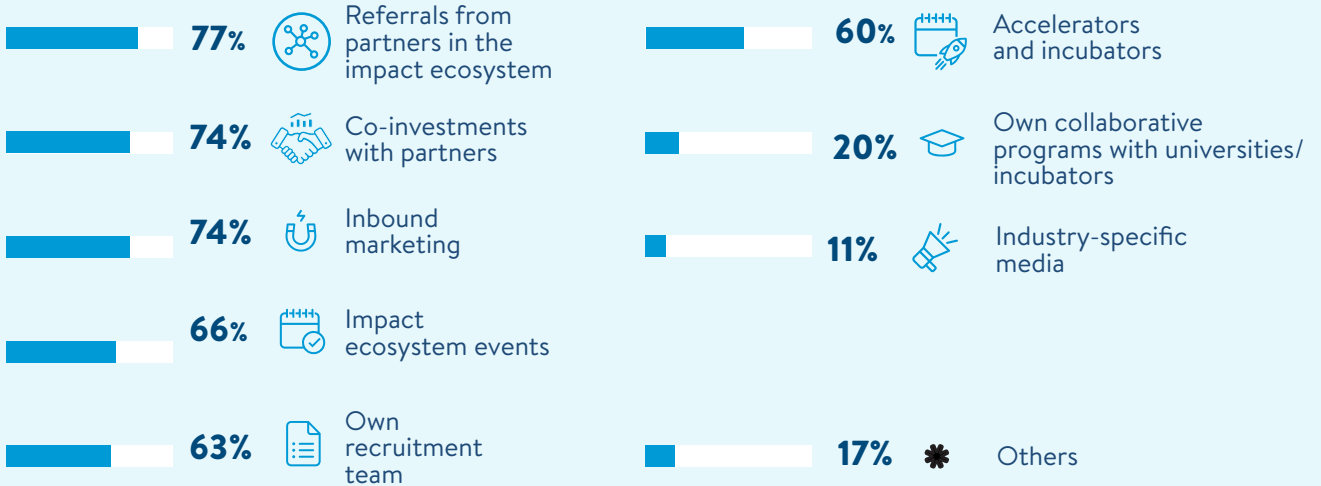


FIGURE 6.7

INVESTMENT OPPORTUNITIES

How investors develop their pipelines

N=35



Out of the respondents, 14 provided information on the composition of their portfolios in the biodiversity and ecosystem conservation sector, which showed that they collectively held R\$ 781 million

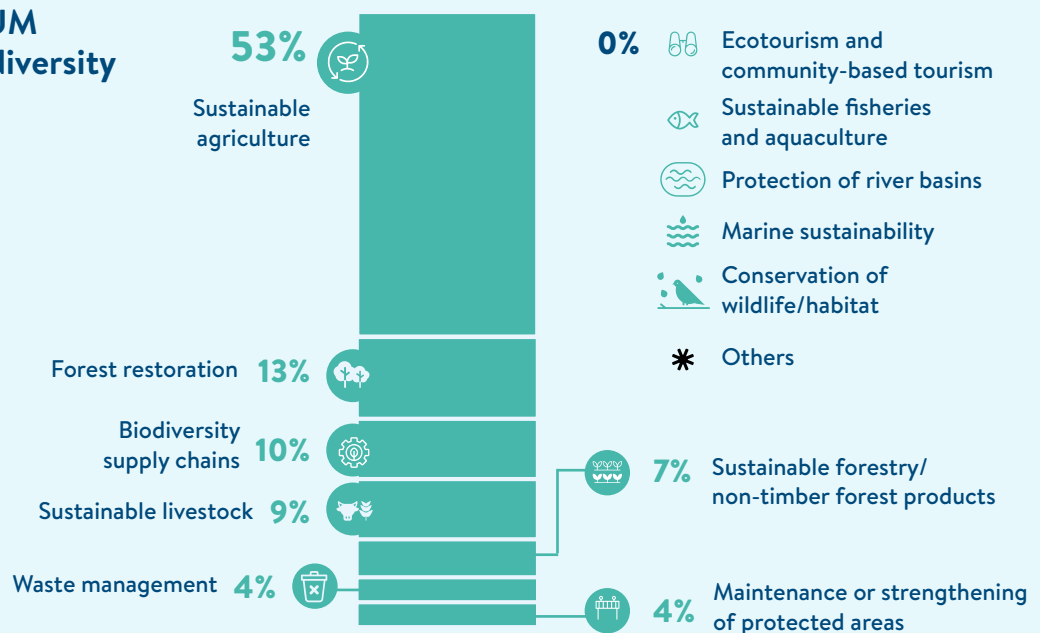
in assets under management (AUM) in this sector. More than half of these investments (53%) were directed towards sustainable agriculture.

FIGURE 6.8

BIODIVERSITY

Percentage of AUM dedicated to biodiversity and ecosystem conservation sub-sectors

Investors: 14 respondents;
AUM = R\$ 780,638,973.31





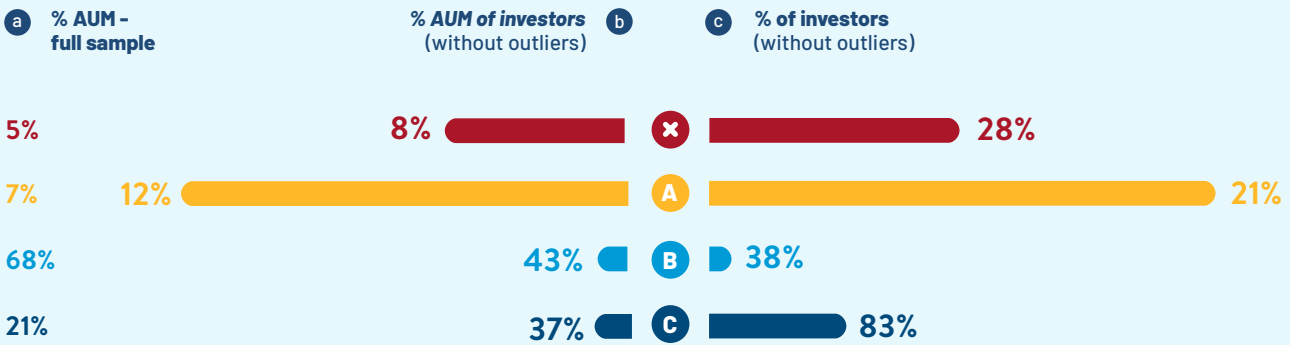
When examining impact approaches within the respondents' portfolios, most investors (83%) have type C investments contributing to solutions. Many of these investors have invested 100% of their portfolios in this category. However, when looking at the total funds allocated,

the largest share (37%) is in type B investments, which benefit stakeholders. Even among traditional investors, 24 have some share of their investments in type C and 11 in type B, indicating a wider spread of capital in type C and a greater concentration in type B.

FIGURE 6.9

BREAKDOWN OF INVESTMENT PORTFOLIOS BY IMPACT FRONTIERS ABC CATEGORIZATION (SEE REFERENCES)

Percentage of investors and percentage of total AUM



Note:

Side list: percentages were calculated based on the full sample (i.e., including investors and outliers); base AUM = R\$ 17,938,939,537.56

Left column: percentage of AUM excluding outliers; base AUM = R\$ 10,230,049,537.56

Right column: the percentage of investors with any investment allocated in each type; base = 29; investors can allocate to more than one type of instrument.

LEGEND

- x** **No impact criteria**
Any company, regardless of the positive or negative impact implications
- A** **Type A - Act to avoid harm**
At a minimum, enterprises can act to avoid harm by identifying where the organization (or asset) is causing harm to people's well-being and the condition of the natural environment and improving those outcomes.
- B** **Type B - Benefit stakeholders**
In addition to acting to avoid harm, companies seek to maintain or cause improved well-being of one or more groups of people and/or the condition of the natural environment
- C** **Type C - Contribute to solutions**
Enterprises actively improve the well-being of a group of people or the condition of the natural environment so that the outcome is within the sustainable range



7 Trends

Investors were queried about their expectations for the years 2023 and 2024. As the data for this report were collected in the latter half of 2022, investors were answering questions about prospects at the tail end of the pandemic. For local investors, this was also during a complex electoral process before the second round of voting.

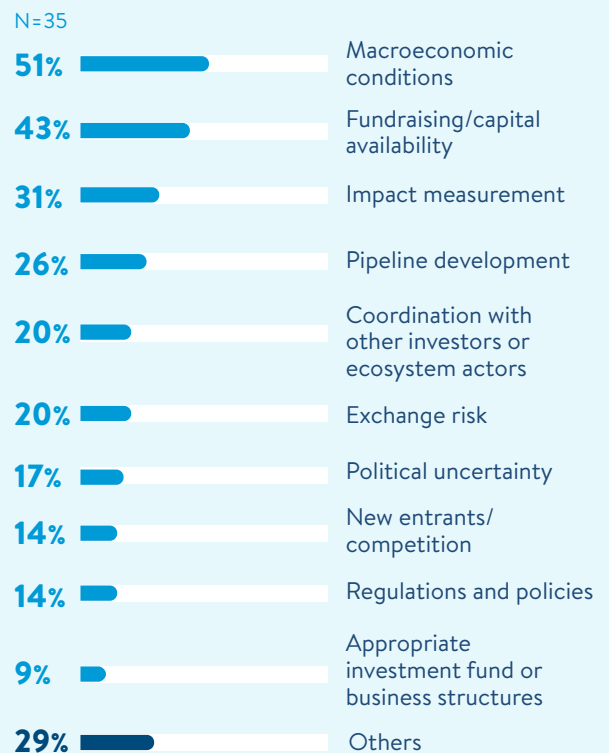
The primary challenges identified were macroeconomic conditions (51%) and fundraising/capital availability (43%). This was in line with previous studies, indicating that these concerns have persisted despite the pandemic and global economic crisis. What has changed since the 2020 report is that political uncertainty has declined as a concern, dropping to third place. In contrast, impact measurement has become more prominent as a challenge, with 29% of respondents stating that they face other challenges in the coming years. Although few elaborated on these other challenges, some mentioned the need to achieve exits and the necessity for more advocacy to obtain support from the government for impact businesses.

Regarding the main challenges relating to impact measurement, respondents frequently cited standardization (51%), cost/resources (49%), and measuring outcomes (46%). Investors abroad were more concerned about standardization, with six out of eight citing it. In contrast, investors based in Brazil more frequently cited fundraising concerns, with six out of ten doing so.

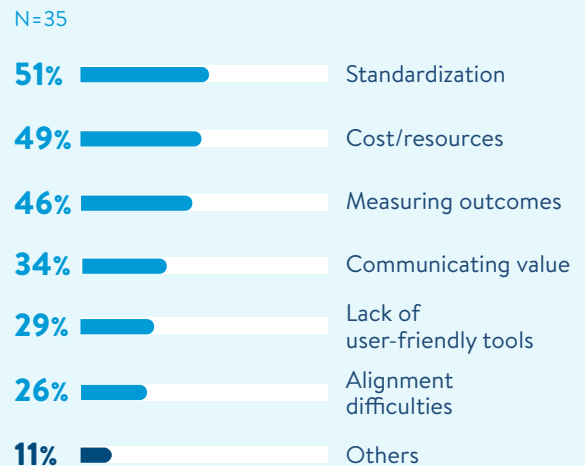
FIGURE 7.1

CHALLENGES

Challenges in impact investing



Challenges in impact measurement





The comparison of AUM data from 2021 and 2020 revealed a significant increase, mainly driven by traditional impact investors (excluding micro-credit providers). This growth can be attributed

to the expansion of existing portfolios, more investors participating in the study and disclosing their AUM, and the entry of new investors who made their first investments in 2021.

FIGURE 7.2

COMPARISON OF AUM

Comparison of AUM in 2020 vs. 2021
(in millions of reais)

Sample:
2020: N=35 respondents
2021: N=36 respondents

	2020	2021	Variation
Investors	> R\$ 4.419	> R\$ 10.963	148%
Outliers	> R\$ 7.082	> R\$ 7.709	9%
Total	> R\$ 11.500	> R\$ 18.672	62%

Upon analyzing the traditional investors who shared their AUM and future expectations in 2021, it is evident that they have a positive outlook on the growth of the impact investing sector. The data shows that investors anticipate an increase in their portfolios by 41% in 2022 and 31% in 2023.

As the data collection occurred in the final quarter of 2022, it is reasonable to assume that the projected funding expectations for that year were close to the amount committed.

FIGURE 7.3

EXPECTED PORTFOLIO

Expected portfolio growth in 2022* and 2023
(in millions of reais)

Base: 23 respondents who reported their AUMs in 2021 and expectations for 2022 and 2023

	2021 reported	2022 expected	2023 expected
Traditional investors	> R\$ 9.013	> R\$ 12.684	> R\$ 16.622
Variation		41%	31%

* The collection period for this survey was the last quarter of 2022.



8 Key Takeaways

1



Market growth

The rise in AUM between the 2020 and 2021 reports demands closer examination. Among traditional investors, the increase was substantial, from R\$ 4.4 billion in 2020 to R\$ 11 billion in 2021. This variation can be attributed to three factors: confident investors declared larger AUMs in 2021 than in 2020, some investors disclosed their AUM for the first time in the 2021 study, and others made their first impact investments in 2021.

2



New investment profiles

More investors are directing funds to companies in the pre-seed and mature private company stages compared to the previous edition of the study. This indicates greater diversification in the sector: on the one hand, investors are willing to take more risk in early-stage businesses; on the other hand, considering more consolidated opportunities by greater proximity to traditional investment markets, facilitated in part by growth in debates around ESG investments.

3



High-potential sectors

Specific sectors have a notable discrepancy between the number of investors who prioritize investments versus those who invest and the proportion reflected in their portfolios. This may suggest that the demand from investors for solutions in those areas exceeds the existing opportunities for impact entrepreneurs, indicating a potential lack of supply in those sectors. These sectors include water, sanitation, hygiene, energy, food, and agriculture.



4



Climate change

The study revealed that between 2020 and 2021, 71% of respondents allocated some of their investments to businesses that address climate change challenges. Additionally, 26% of investors reported that all their invest-

ments during that period were directed toward such businesses. However, measuring climate risks within portfolios, such as greenhouse gas emissions, remains challenging.

5



Impact

The study shows that investors have been increasingly prioritizing SDG 8: Decent Work and Economic Growth and SDG 1: No Poverty. On the other hand, the importance given to health solutions has decreased due to the pandemic slowing down and global economic instability rising. Moreover, there has been a rising interest in solutions related to food and agriculture. Despite this trend, measuring the impact of these investments continues to pose a challenge for the sector.

6



Diversity

The topic remains complex, as more than a third of the respondents still need to collect information about their organizations' boards of directors or leadership. However, among those that do collect this information, there is some progress toward gender diversity. 17 out of 19 organizations have at least one woman on their board, and 20 out of 23 have at least one woman in a leadership position. Nevertheless, the aggregated data shows that the number of men still significantly exceeds the number of women in both board and leadership positions.

On the other hand, collecting and reporting racial data is more challenging, and the data shows a significant lack of racial diversity. Only a small number of organizations reported on the racial composition of their boards and leadership positions, and in most cases, these positions were held exclusively by white individuals. The aggregated data shows an overwhelming concentration of white board members, with only three out of 162 from other racial groups. The situation is similar for leadership positions, with only 22 out of 210 positions held by non-white individuals.



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